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INDIA: PROBLEMS AND PROSPECTS

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INTRODUCTION

With an area of 1.3 million square miles, India forms a rough triangle jutting southward from the Himalayan mountains into the Indian Ocean. From the great plains dominated by the Ganges River through the central plateau to the wooded highlands in the south, a tropical monsoon climate prevails. The variety of India's geography is more than matched by the variety of its peoples, who speak diverse tongues and have attained varying degrees of cultural development, ranging from the primitive aborigines to the highly sophisticated and Western trained intellectuals. Social patterns are heavily saturated with ancient religious concepts despite the fact that for two hundred years they have been exposed to Western culture. Most of India's 300 millions of people exist at sub-marginal levels, are illiterate, and are poorly equipped for assuming the responsibilities of self-government. There is, however, a small group of intelligent and determined men who command the allegiance of the great mass of the people.

In August 1947, India was suddenly transformed from a British dependency into an independent nation. While independence did resolve the major issue that had dominated Indian political life for decades, it did not settle other pressing problems -- an inadequate food supply, a rapidly

growing population, low standards of living, to mention only a few. Furthermore, the grant of independence was accompanied by the partition of British India and new issues arose in the subsequent conflict with Pakistan over the implementation of partition.

At this critical period India finds itself involved, against its will, in the struggle between the USSR and the West. Located strategically between Asiatic Russia and the Indian Ocean, and bordering a China fast falling under Communist domination, India's significance to the West is greatly increased; its internal development and its foreign policy become matters of fundamental concern to the Western world.

This paper surveys the external and internal problems presently facing India and attempts to estimate the course of future developments in India's domestic and foreign affairs over the next five years, with special reference to India's capabilities and intentions in the East-West conflict.

I. POLITICAL STABILITY

A. Form of Government

The executive authority of the central government of India is exercised by a cabinet, headed by Prime Minister Nehru and Deputy Prime Minister Patel. The Governor General, at present C. Rajagopalachariar, is formally appointed by the British Crown as its representative and the cabinet members theoretically serve at his pleasure. The Constituent Assembly, set up to frame the new constitution of independent India, functions also, for the time being, as the central legislative assembly. Provincial governments are similar in form and consist of a governor appointed by the Governor General, his chosen cabinet ministers, and the popularly elected legislative body or bodies. Under the constitution now in force, the Government of India Act of 1935, the provincial governments enjoy a large measure of autonomy.

The withdrawal of the British and the separation of India and Pakistan in 1947 left the administration seriously weakened. There is still a great shortage of trained civil servants, but the Indian members of the old Indian Civil Service, though small in number, form a capable and experienced core around which to build.

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Under the new constitution of India which is expected to come into operation early in 1950, the basic structure of government, both central and provincial, will remain

substantially the same as it is today. But the constitution will introduce a radical change in the method of electing representatives to central and provincial legislatures: for the first time in India's history, elections will be on the basis of full adult suffrage. Henceforth, candidates will have to appeal to the 90 percent of the population hitherto without a vote. The new Indian Union will have the characteristics of a federation and consist of units that are largely autonomous. Nevertheless, authority will be centralized through appointment of provincial governors by the president of the republic, and provisions for dealing with grave emergencies in any part of India affecting the Union. The new constitution will reserve to the Union control of foreign affairs, foreign trade, railways, interstate trade and commerce, Central banking function, and income taxation. In the event of an emergency the federation may be converted into a unitary system.

B. Dominance of the Indian National Congress

The present government of India is in the hands of the Indian National Congress, the party which also controls all the provincial governments. In both central and provincial governments opposition is so slight as to be completely ineffective. Although the cabinet includes a few men who, strictly speaking, are not party members, their views harmonize with those of their Congress colleagues. The same

individuals, Prime Minister Nehru and Deputy Prime Minister Patel, control both government and party. As party leaders, they are largely responsible for formulating party policies, and as heads of government, for putting them into effect.

The Indian National Congress, organized in 1885, is the oldest political party in India. In 1930 the party adopted an economic program verging on socialism, but because its primary objective was political -- the independence of India -- it was supported by all classes of the Indian population regardless of their particular and sometimes conflicting economic interests. This composite character may be observed in the present-day party.

At the base, "primary" members of the Indian National Congress are organized in village, district and other local committees. At the next level are the provincial Congress committees which play a very important role in provincial government and can make or break a ministry. Delegates are elected from the provinces to an annual session of the party, and the same delegates elect one-eighth of their number as representatives on the All-India Congress Committee. The president of the National Congress, also elected by the delegates, chooses a working committee, including the general secretary, from among the members of the All-India Congress Committee. In the higher offices of the party, at both central and provincial levels, there has not been much change

of personnel for ten or fifteen years. The top offices are invariably occupied by members of the "High Command." The leaders of the Indian National Congress are men of high caliber, intelligent, able and motivated by the desire to build a strong and prosperous Union.

Gandhian socialism is the term often applied by Congress Party members to characterize the economic and social objectives of the National Congress. In the election manifesto of 1946 the party called for state ownership or control of "basic industries and services, mineral resources, railways and waterways, shipping and other means of public transport"; the abolition of intermediaries between peasant and state; a system of cooperative farming "suited to Indian conditions"; the "establishment of a minimum wage and a decent standard of living, proper housing, hours of work and conditions of labor in conformity, as far as economic conditions in the country permit, with international standards, suitable machinery for the settlement of disputes between employers and workmen, and protection against the economic consequences of old age, sickness and unemployment."

The Congress Party government of India has followed a middle-of-the-road policy. It has made no attempt to take control of industry, has advocated delay of widespread agrarian reform by provincial governments, and has done little to carry out its labor program. The election manifesto incor-

porated the party's ultimate aims and was designed to appeal to the Indian masses. But the necessities of the times and the composite character of the party have forced the government to adopt a more moderate policy.

The mass appeal of the Indian National Congress is due largely to its close association with Gandhi and the independence movement. Party leaders continue to invoke the memory of Gandhi and to appeal to the Indian people in his name. The prestige acquired from the successful fight for freedom will stand the party in good stead for some years to come. In addition to these assets the party has built up an efficient political machine; its leaders are experienced; and it is well supplied with funds.

Nevertheless, the stock of the National Congress is not now as high as it was the day freedom was achieved. Even the most friendly critics warn that "cashing in on the credit of popular heroes cannot go on indefinitely." Faced with growing opposition from various political parties, the Indian National Congress will have to fight to maintain its present control of the government. The final outcome depends on its success in meeting opposition and finding some solution to India's economic problems.

C. Opposition Parties

1. Socialists. The Socialist Party of India, though at present small, poorly organized, and lacking in funds, is

potentially a significant force in Indian political life. Its leaders are a handful of intelligent and sincere men who command respect. Its unremitting struggle for freedom won popular sympathy and admiration, especially during the period 1942-45 when Gandhi and the Congress Party leaders were imprisoned for refusing to cooperate in the war effort. Its program of state ownership and state control of all means of production with the abolition of private property, offers an alternative to the Congress policy of expedient compromise on the one hand, and militant Communism on the other.

Originally organized in 1934 as a left-wing movement in the Indian National Congress, the Socialist Party, led by Jai Prakash Narayan, broke away from the Congress Party in 1948 and has since taken a completely independent line on all important matters. The Socialists criticize the Constituent Assembly as non-representative and therefore unfit to frame the new constitution, and demand that it be dissolved and new elections held on the basis of full adult suffrage. They have condemned the decision taken by the Assembly to remain in the Commonwealth as a betrayal of the struggle for independence. At present political representation of the Socialist Party in central and provincial governments is insignificant and its opposition totally ineffective. However, an important section of organized labor is under Socialist control, and party members have long been active in provincial

peasant movements. It is certain that in new elections, with adult suffrage, Socialists will gain some seats.

The Socialist program is strictly Marxian. Indian Socialism differs from Communism chiefly in that it stresses the necessity of a gradual and, if possible, non-violent approach to its ends, and condemns subservience to a foreign power. In international affairs, Indian Socialists advocate the development of a "third bloc" with India playing a leading role.

Socialist propaganda follows a strict party line, but in actual practice Socialist leaders have proved to be cautious and willing to compromise on particular issues.

2. Communists. The Indian Communist movement dates back to the early 1920's but the Communist Party of India as it functions today, disciplined and highly organized, came into existence only in 1934 and achieved its present strength chiefly during the years 1943-45. Since 1947, the party, while not legally banned except in West Bengal and Madras, has been for some time under severe repression by all provincial governments, and its principal leaders are now either in jail or underground. Party membership is small, probably about 60,000, but the fact that Communist candidates polled over 600,000 votes in the election of 1946 shows some mass support; its base, both in urban and rural areas among the workers and peasants yet to be

enfranchised, is no doubt broader than this figure indicates. There is now no Communist representative in the central government, and only eight in all the provincial legislative assemblies.

Communists have concentrated their energies on organizing the workers and peasants and have been quite successful. By 1947, Communist labor leaders had captured the All-India Trade-Union Congress, greatly increased its membership, and won for it official recognition as the most representative body of organized labor in India. The All-India Trade-Union Congress has since lost this status, and a number of its member unions have gone over to rival organizations, but it remains a powerful force and an effective instrument of Communist policy. Among the peasants, Communists have had spectacular success in southern Hyderabad and adjoining areas of Madras Province. In large sections of this territory Communist rule was established, land was seized from the landlords and redistributed among the peasants, debts were abolished, and educational and medical facilities were provided. The Communists used terroristic methods to gain control over the peasants, but won popular support by their program of reform. In spite of prolonged efforts of police and army to uproot them, the Communists still maintain strongholds in the area from which to carry on guerrilla warfare. They have been active also among the peasants of East Punjab,

Kashmir, Bombay, and Bihar.

Throughout its history the Communist Party of India has followed the policies of international Communism. Until 1943 this entailed no serious departure from the nationalist program of the Congress Party, but in that year Indian Communists, acting contrary to Congress policy, advocated support of the war effort against the Axis powers. When members of the Congress Party were released from jail in 1945, one of their first acts was to expel Communists from the party in which some had held important positions for many years. Nevertheless, from 1946 to 1948, Communists advocated a policy of cooperation with the Congress government, with the avowed aim of strengthening the latter's progressive elements, headed by Nehru. In 1948, however, the Communists adopted a new political thesis. They declared that the previous distinction between Left and Right in the government was not valid, and that the Communist Party would henceforth carry on an all-out attack on the government. This shift was accompanied by a shake-up in the party leadership. P.C. Joshi, general secretary since 1934, was replaced by B.T. Ranadive, one of the principal advocates of the new thesis. During the past few months there have been indications that a split is developing in the party ranks. The old "reformist" policy of collaborating with the Congress Party, associated with P.C. Joshi, appears once more to be

gaining acceptance.

Economic conditions in India provide fertile soil for the spread of Communist influence. But the party so far has made little headway, owing chiefly to two factors: in the first place, the Indian National Congress, with its goal of freedom and independence, absorbed the political energies and enthusiasms of all classes; in the second place, throughout much of its history -- from 1934 to 1943 -- the Communist Party of India has been an illegal organization. Today also it is virtually under a ban.

3. Rightists. The Hindu Mahasabha (Great Society) advocates a state based on the traditions and principles of Hinduism. Organized in 1924 by a group of militant Hindu politicians, the party was the Hindu counterpart of the Muslim League until the separation of India and Pakistan: each advanced the claims of one community and limited its membership to the followers of one religion. Members of the Hindu Mahasabha believed that the interests of the Hindus were being sacrificed to placate the Muslims. Although partition brought an end to communal rivalries as they had existed in undivided India, the Mahasabha continues to exploit religion for political ends.

The Hindu Mahasabha is closely associated with a fascist type of organization, semi-military in character, known as the Rashtriya Swayam Sewak Sangh (Society for the Advance-

ment of the Country -- RSSS). Among middle-class youths of high school and college age the society has a large following, and all the evidence points to an efficient organization. Both the Mahasabha and the RSSS were suspected of complicity in the murder of Gandhi in January 1948. The RSSS was banned and the Mahasabha announced its decision to cease political activity. In December 1948, the party reversed this decision on the ground that "the Government was dominated by a Party which had been responsible for encouraging and appeasing the Muslims and which had begun to suppress the democratic and national parties and groups." In July 1949 the Mahasabha adopted a socialistic political and economic program designed to win mass support. The government lifted the ban on the RSSS about the same time, having received assurances that the organization would not "embarrass" the government.

The Mahasabha has slight influence in central and provincial governments. The party has one representative in the West Bengal Legislative assembly, and another in Bombay. Dr. Shyama Prasad Mookerjee, Minister of Industry and Supply in the central government, was president of the Hindu Mahasabha from 1944 to 1947, but is no longer a member of the organization. Lines between Left and Right are not clearly marked in Indian politics. If, in opposition to a strong or growing leftist party a rightist group takes

definite shape, it will possibly be under the direction and influence of the Hindu Mahasabha.

D. Prospects for Stability

Chief among the political problems is the instability of most of the provincial governments, arising primarily from factionalism in the provincial branches of the National Congress party. The strength of the central government depends on close cooperation between center and provinces, and defeat of the Congress Party in any of the provinces would seriously weaken the central government. Dissension in a provincial party provides an opportunity for the opponents of the Indian National Congress to seize power. In June 1949, this was spectacularly demonstrated in West Bengal, when leftist parties combined in a provincial by-election to defeat the Congress candidate. Widespread corruption and malpractices in the provincial governments have strengthened the opposition.

Provincialism or sectionalism is another deep-rooted tendency which must be combated if the Indian Government is to remain a strong and well-integrated unit. This provincialism encourages separatist tendencies among such groups as the Sikhs in the Northwest, the Mahrattas on the West Coast, and the Bengalis in the East. In a conflict between national and provincial interests, the latter are likely to be given first consideration by the provincial

government.

Sectionalism in a different form created the problem of "linguistic" provinces. The proposal to divide and rearrange the existing provinces to conform with the linguistic divisions of the country is an old one, and has been accepted in principal by the National Congress for many years. The top leaders of the party believe that to create "linguistic" provinces at the present time would weaken the central government, and a committee appointed in 1948 by the National Congress to investigate and advise on the problem recommended that final action by postponed. This decision has come in for considerable criticism even within the party ranks, and the question of "linguistic" provinces may be an important issue in the next elections.

The care and rehabilitation of the millions of refugees displaced during the fighting and disruptions before and after partition is one of the biggest tasks facing the government. Most of the 7,000,000 refugees from Pakistan reached India in a state of destitution. The economic burden they imposed on the new Dominion was tremendous. Some progress has been made in absorbing and caring for the refugees but much remains to be done. In the provinces where many have been distributed they form a new and alien element in the population, creating serious problems of law and order. It will be a long time before they are completely assimilat-

ed. Dissatisfied and critical of the measures taken to aid them, the refugees may be swayed by appeals to join the opposition parties. Successful and permanent rehabilitation is closely tied up with the entire governmental program of national reconstruction. The problem has been and remains a severe strain on the government's financial and administrative resources.

Many problems arising out of the attempt to integrate the former princely states with the Indian Union remain to be solved. Since the Congress Party government assumed control of India, 560 states (covering about 48 percent of the total area of the Dominion and including about 27 percent of its population) have been reduced to about 20 administrative units. The potential threat to the authority of the Indian Government in the autocratic rule of the Indian princes no longer exists. The objective of complete identity of the states with the provinces, in law, administration, finance, and democratic government is on its way to fulfillment.

Nevertheless the passing of the old regimes has created new problems. The people of the former states completely lack experience in self-government and have had little or no opportunity to participate in political life. Congress Party organizations are very weak and the former Indian states are a fertile field for Communist and Socialist

activity. Most of the present governments in the new units have practically no popular support and in some cases have proved to be thoroughly incompetent. Whether the units as they now exist can continue, whether they will be incorporated in neighboring provinces, or will come under administration by the central government, is not yet certain.

The Indian National Congress should be able to remain in control of the government during the next five years primarily because there is little probability that effective opposition will develop. Its ability to overcome the aforementioned political problems and to develop a more effective government with which to face emergent internal political problems as well as the advances of Communism into southeastern and southern Asia will depend primarily upon the solution of India's basic economic problems and the establishment of more friendly relations with Pakistan.

II. VIABILITY OF INDIA'S ECONOMY

Even before the end of World War II, India's economic machine showed signs of weariness and deterioration. As partition day approached (August 15, 1947), production in agriculture and industry was sagging, prices were rising, foreign trade was declining, and government finances were not recovering from the effects of war. But the Indians ignored these unfavorable developments in their exuberance over the prospect of independence. The business community, rejoicing in India's immense sterling balance reserves and their future as the sole managers of their own industries, tended to overlook the economic signs of the times. Few anticipated the economic problems that were to grow out of partition, the full consequences of which only now are becoming apparent in the vital sectors of India's economic life.

A. Agricultural Production and Requirements

The new Indian dominion has a population 17 percent smaller than that of British India, and about 17 percent less cultivated land. But its foodgrain-producing land is 26 percent smaller (32 percent less rice land and 37 percent less wheat land), and it has 75 percent less jute acreage, over 30 percent less cotton land, and 33 percent less tobacco land.

Despite the smaller crop acreages the pattern of

agricultural production has remained unchanged. Cultivators have planted the traditional crops in approximately the same acreage, except for an increase in areas planted to jute. Production in present-day India compared with estimates of production in the same areas under British rule increased only slightly, if at all, and not with the expected upward swing. During the latter part of 1948, Indian leaders began to realize that partitioning the subcontinent had weakened India's position as a producer of agricultural commodities, especially those satisfying basic requirements for food and industrial raw materials.

1. Food. Before partition India imported annually an average of 850,000 tons of foodgrains. In 1948, imports of foodgrains were between 3.5 and 4.0 million tons. Official estimates for 1949 place the figure at 2.5 million tons, although other reliable sources make the figure equal that of 1948. Within the next four years it appears unlikely that India will be able to reduce its imports below 2.0 million tons, and this figure will not be reached before 1951 or 1952.

The Indian Government has been forced to take action to improve food production. Long-term plans to improve agricultural production in ten to twenty years are giving way to new plans to solve immediate food supply problems. Tractors are at work reclaiming cultivable waste land; foreign loans were secured to increase irrigation by

sinking new tube wells and to destroy large areas of weeds. The central and provincial governments are promoting successfully the use of compost and other fertilizers as well as improved varieties of seed to increase the yield per acre. These developments indicate that foodgrain production may gradually be increased; it would be overly optimistic to expect great improvement soon.

2. Industrial Raw Materials. To supply the agricultural raw materials needed by India's industries the acreage of jute and long fibre cotton must be greatly expanded. Jute acreage would have to be increased by about 1.2 million acres to meet the requirements of the jute mills. It is doubtful either that India's food requirements will permit the immediate diversion of such a large area from foodcrops, or that new land will be reclaimed at a rate fast enough to meet this goal in the near future. Approximately 800,000 cultivators will need to change their traditional agricultural methods when long staple cotton replaces short staple varieties planted over 2.0 million acreas. Already the government has begun to persuade the cultivators to grow more long staple cotton, but it is unlikely that India will succeed soon in growing its requirements.

B. Industrial Production

There is a growing consciousness that India's position as an industrial producer must be reexamined. Industrial production declined in the immediate postwar period; then,

although never reaching the peak of production attained during late war years, it showed a slight increase during 1948 and the first five months of 1949, after which another decline set in. The Indian industrialist, G.D. Birla, estimates that 20 percent of existing industrial capacity is not utilized. Steel and cement plants are utilizing only 65 percent of their capacity. Cotton and jute mills are working part-time. Sugar mills utilize only 70 percent of their plant. The coal mines are not working at full capacity since the railroads are unable to move the stocks from the pitheads. Electrical generating capacity has increased, but supply of electricity to industrial concerns is short. The existing industrial plant could produce appreciably more than it is now doing, but a healthy atmosphere of productive activity is missing.

India's industrial plant has, however, seriously deteriorated. Capital equipment is antiquated and in poor repair. Sixty percent of the spindlage in Bombay textile mills is over thirty-five years old -- at least 30 percent of present equipment was installed in the nineteenth century, and 40 percent requires immediate replacement. As of October 1948 it was estimated that the accumulated backlog of essential replacements in the textile industry alone was $600 million, against which there were imports of replacements of only $237 million from the UK and the US

in that year. Total capital employed in industry has progressively decreased since 1944 and less capital is employed in relation to labor.

The restive attitude of labor contributes to the unhealthy atmosphere pervading India's economic life. Labor is concerned with growing unemployment; the two largest employers of industrial labor, the cotton and jute textile mills, are laying off workers. Housing is inadequate; worker morale is being sapped by propaganda that draws invidious comparisons between their "unchanged" status and the "affluence" of management; and the industrialist is pictured as a profiteer, blackmarketeer, and tax dodger. This type of propaganda, naturally, is disseminated by the Communist and Socialist Parties. But the Congress Party has contributed to its spread by emphasizing the need for reforms in distribution of wealth rather than increased industrial production. The government attempts by rigorous controls to prevent labor from seeking new wage increases, though they have received increases sufficient to meet their essential food and clothing needs. But prices are increasing, and a continued increase in the cost of living is certain to make labor more restive.

Prices have risen markedly since partition. The general index of wholesale prices, which stood at 290.5 on August 15, 1947, rose to 377.0 at the end of May 1949. It

is true that after August 1948 there was a slight downward movement as a result of the government's anti-inflation program. But since March 1949, prices have been rising again. It is now feared that the government's policy of reducing imports and the devaluation of the rupee will lead to a further rise. In eight of the nine cities for which a cost-of-living index has been made the index has risen, in one city as much as 100 points. Delhi alone shows a decrease -- 10 points since partition.

The rise in prices reduces business activity and tends to drain off any savings of government employees and professional classes. Since agricultural prices have risen faster than other prices, wealth has been transferred from urban to rural groups. Investment capital from these two sources has dried up, and business entrepreneurs are feeling the pinch. Higher prices have contributed to the deficit financing of the government which, in turn, tends to dampen the businessman's ardor to enter any new enterprises.

Much of the depressed feeling that prevails in the Indian business world arises from the government's failure to establish fixed and clearly defined economic policies. The business community does not know what the government will do regarding taxation, labor controls, nationalization of industries, and the extent to which foreign investors will be permitted to participate in India's industrial

growth. In the past the Indian Government has always assumed the lead in any program of economic betterment. Facing financial difficulties itself, the government is not playing as vigorous a role as the business community wishes. Management has lost confidence in the Congress Party's ability or desire to direct the government toward establishing policies more beneficial to industrial activity. In the minds of some observers, these factors are encouraging financial and industrial entrepreneurs to go on strike as they wait to see which way the government will move -- toward free enterprise or toward nationalization.

C. Financial Position

1. Balance of Payments. India's balance of payments shows a heavy deficit. The adverse balance of Rs. 370.7 million in the fiscal year 1947-48 is now estimated to be increasing in 1948-49 to the unprecedented sum of Rs. 2,140 million. The deficit for 1947-48 in the dollar trading area was estimated at from $160 to 180 million and for 1948-49 it will be from $180 to 200 million. This notable change in India's balance of payments position arose most immediately from the necessity of importing foodgrains estimated in 1948-49 to cost Rs. 1,300 million. The enlargement of India's food production and improved procurement methods will tend to decrease this excessive cost, but it is unlikely that it will be completely eliminated in the

next five years.

The second set of factors that tends to increase the balance of payments deficit arises from partition and indicates more fundamental changes in India's trade position. The major raw materials for India's principal industries now come from Pakistan. The large imports of raw jute and raw cotton have left India, in its trade with Pakistan, with an adverse balance of approximately Rs. 350 million in 1948-49. A trade war between the two nations is building up; its duration will depend upon the solution of the problems centering in the Kashmir and allied disputes. But barring an all-out long-term trade war arising from India's devaluation of the rupee and Pakistan's failure to devalue, little reduction in India's imports of Pakistan's raw products can be expected for some years.

The third set of factors leading to increasing balance of payments deficits develops from India's large needs for capital replacements to maintain its present industrial plant and for new equipment to expand its industries. Most of these requirements can be satisfied only from outside India, particularly from dollar areas. In time India may erect plants for building machines needed in India's industries. But very little progress in this direction can be expected in the near future; expansion of the machine tool industry during World War II has not continued since the

war. Under such conditions heavy expenditures in foreign markets will be required during the next decade to bring India's industrial capacity into full use and to expand it.

India cannot readily expand the range, nor can it increase the quantity of its exportable products. Domestic consumption is high because of increased demand at home; the poor quality of exports makes the foreign purchaser cautious of buying in the Indian market; and the prices of many Indian goods are not competitive on world markets. The increased value of India's exports in 1948 over those in 1947 can be accounted for largely by the rise in prices. Decreases in volume occurred in raw jute, raw cotton, cotton waste, hides and skins, manganese ore, and tea. Increases were substantial in both quantity and value of manufactured jute, cotton piecegoods, oilseeds and mica. Exports of other items, such as lac and different vegetable oils, show only slight increases.

2. Government Finance. The financial position of the Government of India is becoming critical. Since partition there has been an apparent decline in the general budget deficit from Rs. 65.2 million[1] in 1947-48 to an anticipated surplus of Rs. 4.6 million in the current fiscal year. But

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1. One rupee = about $0.30 before devaluation in September 1949.

since last April, receipts in customs duties and income-tax yields show a decline amounting to Rs. 350 million; and it is likely that defense expenditures will increase by over Rs. 100 million. Such changes would leave India with a general budget deficit of Rs. 450 million at the end of 1949-50 and a heavier deficit than British India experienced in pre-partition years. Should prices rise as a result of the recent devaluation of the rupee, government costs will increase and lead to a still higher budget deficit. India also expects a deficit in its capital account amounting to Rs. 1,341 million in 1949-50, thereby making the government's current deficit, in terms of pre-devaluation rupees, a total of Rs. 1,791 million.

The aftermath of partitioning has been the major cause of the increased expenditures from the general budget. Expenditures on refugees cost the government about Rs. 150 million per year, and expenditures for military operations in Hyderabad and Kashmir increased from Rs. 866.3 million in 1947-48 to an estimated Rs. 1,874 million in 1949-50. The increased tension in relations with Pakistan indicates that defense expenditures will not be decreased much before 1952. The Indian budget records expenditures for food amounting to approximately Rs. 200 million annually, and it does not appear likely that this item will decrease appreciably in the future.

D. Government Leadership

The statistical material presented above shows that India's economy is depressed. But several imponderable factors suggest caution in arriving at pessimistic conclusions regarding India's economic future. The first of these imponderables is the leadership of the National Congress Party. It has shown that it possesses directive manpower that is ready to face up to its problems. Under the Congress Party the government has maintained law and order with increasing confidence. Reluctantly but in the national interest the government has had the courage to reimpose unpopular regulatory controls relating to food procurement, food rationing, imports and exports, foreign exchange, and labor. At the same time, it has abandoned some fixed ideas when they appeared detrimental to the national welfare. For example, the government's attitude toward foreign investments has been softened remarkably as it became obvious that domestic capital did not come forward and foreign capital was reluctant to enter India.

The same realistic approach is evident in economic planning. Early plans tended to concentrate upon grandiose schemes for improving conditions fifteen to twenty years hence. But urgent problems forced the government to forsake the more academic aspects of long-term planning and to direct its energies toward specific projects that

promised relief in less time: increasing crop acreage by using tractors to reclaim cultivable waste land, increasing the yield per acre of present crops by building fertilizer factories and procuring improved varieties of seeds, and improving transportation facilities through loans for the purchase of rolling stock and locomotives. This more realistic approach to the solution of India's economic problems suggests that India's economic future may be less gloomy than the study of statistical data indicate. It also suggests that if increased outside assistance were provided, India could probably make marked progress.

III. INDO-PAKISTAN CONFLICTS AND THEIR EFFECTS

Some of the most serious problems confronting Nehru's government today result from the partition of British India. Perhaps the greatest obstacle to solving these inter-dominion problems is the mutual suspicion and antagonism of the two dominions, arising from the hostility between the Indian National Congress and the Muslim League over the latter's demand for the establishment of Pakistan. Pakistan's greatest fear appears to be that India will eventually force a reunion either by direct military action or by financial and economic domination. India on its part is convinced that Pakistan officials are embittering relations between the Muslims and other religious communities in India in order to embarrass and weaken India, and that Pakistan's fears of Indian domination have no real foundation but are deliberately cultivated to justify authoritarian domestic policies and aggressive action vis-a-vis India.

A. The Accession of Kashmir

The most serious conflict jeopardizing Indo-Pakistan relations today is the dispute over which country will get the princely state of Kashmir and Jammu. Actual fighting was brought to a standstill on January 1, 1949 and both sides appear to be genuinely anxious to avoid renewed military action. Yet since both dominions have failed to agree on the timing and scope of troop withdrawals, both are experiencing

a drain on their financial resources that neither can afford.

Pakistan rests its claim to the state on these facts: (1) three-fourths of the population is Muslim; and (2) at the time of partition in 1947 certain elements in the state opposed the Hindu ruler's decision to declare the state independent, demanded affiliation with Pakistan, and established an independent government (the Azad) in the southwestern part of the state. India's claim rests on three considerations: (1) the Congress Party has long and vigorously supported the popular campaign for democratic government waged by the National Conference Party under Sheikh Abdullah against the Hindu ruler of Kashmir; (2) the National Conference, which claims to be the largest party in the state, resisted the invasion of tribesmen and "irregulars" from Pakistan in October 1947 and appealed for Indian aid in opposing forced accession to Pakistan; and (3) the Hindu ruler formally declared for accession to India in order to get military aid against the invaders and their Azad supporters in the state.

Both dominions are agreed in principle to holding a plebiscite on the issue of the ultimate accession of the state but the efforts of the United Nations Commission on India and Pakistan (UNCIP) have not yet succeeded in getting the two parties to agree on the terms of truce and the major conditions which should precede the holding of a plebiscite. While Pakistan is demanding the early withdrawal of most of

the Indian troops from the state, India refuses unless such withdrawal is carried out concurrently with the disarming and disbanding of the local Azad forces who have been trained and led by Pakistan. A second major point of disagreement concerns the northern areas of the state. India contends that this area, whose officials were ousted by Pakistan troops and not by any local revolt, must be returned to the state administration because it is not clear where popular sympathies would lie if military threats and financial subsidies from Pakistan were withdrawn. India also contends that if there is to be a free and fair plebiscite the defenseless populations of the Kashmir and northern areas must be protected against any further raids from Pakistan as well as from intimidation by militarized groups in the state.

The interest of both Pakistan and India in the outcome of the Kashmir dispute seems to stem mainly from political rather than economic or strategic reasons. Pakistan leaders naturally want to vindicate their claims that no area with a Muslim majority would choose to join India. Some Indian leaders, particularly Nehru, are equally desirous that their claims to secularism be supported by Muslim votes in Kashmir. Because Nehru has played an active role in the campaign for popular government in Kashmir since the early 1930's, he is probably more interested than any other member of the Indian Government in seeing Sheikh Abdullah's administration succeed, and in having this particular record of

Hindu-Muslim political cooperation vindicated.

Certain recent statements by Nehru indicate that he wishes to improve Indo-Pakistan relations. But hitherto his personal interest in the Kashmir dispute has apparently led him to refuse any concession to Pakistan. Although India's rejection of the UNCIP arbitration proposal led a section of the Indian press to recommend rejection of a plebiscite as well, the Indian Government is apparently favorable to arbitration in principle and it is to be hoped that an arbitration for general demilitarization of the state might be successful.

B. Evacuee Property

Since early 1949 a new problem -- the exchange of refugee property -- has loomed in Indo-Pakistan relations and threatens to overshadow even the Kashmir problem. Following the communal mass killings in the Punjab and the Northwest Frontier provinces shortly after partition, approximately 6,000,000 Sikh and Hindu refugees fled from Pakistan to India. The initial concern of both governments was the maintenance and resettlement of these refugees with whatever resources as were immediately available. Although the number of refugees in Pakistan was larger than the number in India, the property left behind in Pakistan was much greater in both quantity and value. Therefore, Pakistan has had a considerable advantage. Inter-dominion negotiations, begun late in 1947 to examine the problem of exchange and restitution,

made virtually no progress until the end of 1948 when a pact was signed recognizing that the refugees by their flight had not forfeited their rights to property left behind them. The detailed agreement which followed in January 1949 arranged for (1) the private exchange or sale of immovable property, (2) the collection and remission of rents on such property by the two dominions pending exchange or sale, and (3) the exchange of land records as a preliminary to a more detailed agreement on agricultural property.

Pakistan was apparently prepared to carry out the agreement until the first detailed estimates of the value of the respective properties became available. With the discovery that the value of property of Muslim evacuees from India was probably 1.5 to 2 billion dollars while the property of non-Muslim evacuees from Pakistan was valued from 4 to 4.5 billion dollars, Pakistan officials showed reluctance to proceed. India contends that the only satisfactory solution is to put all exchanges on a government-to-government basis with some arrangement for public sales or auction. A major obstacle to the solution of this problem is that the Pakistanis are in physical possession of the more valuable property, and many individuals have already acquired substantial properties for much less than their real value. Many refugees have been spending their second monsoon season in inadequate shelters; some Indian newspapers that speak for the refugees are beginning to insist that the only way to get

satisfaction from Pakistan is by force of arms, while others are urging that if Pakistan is not compelled to pay the Indian Government must assume the claims. In view of the large number of refugees involved and their strategic position near Delhi and along the Pakistan border, the failure of the Congress Party government to solve this problem will give dangerous ammunition to rightist groups and militant anti-Pakistani elements in the country. The government is apparently fully aware of these dangers and is giving serious thought to the possibility of arranging for outside arbitration if all direct negotiations fail.

C. Water Rights

A third important source of friction between India and Pakistan is the dispute over water rights in East and West Punjab. Two rivers, the Ravi and the Sutlej, have canal systems which irrigate the province of East Punjab in India and then cross the border to irrigate large tracts in the West Punjab province of Pakistan. At the time the province was partitioned, a temporary settlement was arranged to assure the usual water supply to the West Punjab tracts in exchange for appropriate payment to India of capital and operating costs. When this agreement expired in mid-1948 Pakistan refused to continue payment, claiming the canal water as a matter of right. India countered with the claim that it had exclusive rights of control over canal water, that the analogy to natural river water did not apply, and

proceeded to cut off the water from one of the canals into Pakistan. A second temporary agreement was then reached whereby Pakistan made arrangements to pay for the water and India agreed not to cut off the supply. The fundamental conflict remains, however, since Pakistan still insists on its absolute right to the canal waters. The situation is further complicated by India's contention that inasmuch as East Punjab has an under-developed irrigation system and a smaller source of water supply than West Punjab, India will have to draw more heavily on the waters under its control and the West Punjab must accordingly make arrangements to supply the tracts now connected with the Indian system from other sources in the Pakistan province. Pakistan wants the question of the rights to canal water submitted to the International Court of Justice. India has refused, insisting that the whole problem of irrigation needs and water supply should be submitted to arbitration. Settlement of the dispute is vital not only because it affects all Indo-Pakistan relations along the Punjab border but also because of the complication it has introduced into the conflict over Kashmir. Three of the six rivers in West Punjab enter the province from Kashmir, and the headworks of one of Pakistan's canal systems is just inside the border of Kashmir.

D. Rivalry in International Relations

Apart from these three obvious conflicts, the rivalry and antagonism between the two dominions affects practically

all their relations with other countries. Instead of co-operating to strengthen their position in international affairs, each dominion has preferred to pursue an independent course. Each is extremely sensitive and suspicious of any country giving recognition or aid to the one and not to the other. Furthermore, despite India's generally good relations with Western countries, some suspicion still lingers in India from pre-partition days that certain elements in the UK and possibly in the US prefer to aid Pakistan rather than India. Pakistan, on its part, has been quick to resent what it considers to be India's pretensions to leadership in Asia.

India's rivalry with Pakistan on the international scene has been particularly evident in India's relations with Muslim countries. Before partition Congress Party leaders had developed a number of ties with these countries, based on their common opposition to British domination and the fact that India contained one of the largest Muslim communities in the world. Since partition the Indian Government has solidified hese earlier ties; although the country has lost more than two-thirds of its original Muslim community of 90,000,000 it still retains a very sizable Muslim population. India's interest in developing close relations with the Muslim countries is partly a result of its geographical position and its interest in underdeveloped non-Western countries. But an equally strong -- if not more important -- motivation now appears to be India's desire

to counter Pakistan's attempts to become leader of the area, and to assert the continued importance of India's own Muslims. The result is that most of the efforts of both Indian and Pakistan representatives in the area has been devoted to undermining the influence of the rival dominion.

E. Prospects

India has vital economic, political, and strategic interests in developing close and friendly relations with Pakistan. The economies of the two dominions are highly complementary; India is dependent on Pakistan for certain important raw materials and Pakistan is India's biggest potential market. The continued aggravation of relations with Pakistan strengthens the hands of the militant Hindu opposition to the Congress Party government; it handicaps present efforts to establish a firmly-based secular state and to enlist the full cooperation of the Muslims in India. Because of India's and Pakistan's juxtaposition on the subcontinent they need to cooperate for defense purposes and their interests are almost identical on a number of important international issues. But the present cut-throat rivalry between the two dominions can be expected to continue, with particularly serious detriment to India's economy, until some solution is reached in the disputes over Kashmir accession, evacuee property, and water rights. The most serious immediate obstruction to improved inter-dominion relations is the delay in settling the Kashmir dispute. Although the general outlook

at the moment is gloomy certain recent statements by Prime Minister Nehru suggest that there may be some hope of success in a systematic and simultaneous attack on all three major points at issue. In connection with the dispute over evacuee property Nehru took occasion to emphasize the special need for developing friendly relations with Pakistan and suggested submitting to arbitration all major inter-dominion conflicts over which direct negotiations had hitherto failed. Pakistan would almost certainly reject any suggestion to arbitrate the actual disposition of Kashmir itself. But it might be willing to refer to arbitration the disputes over evacuee property and water rights if India would agree to arbitration of the question of demilitarization in Kashmir and would proceed with the plebiscite as promptly as possible. If some such settlement can be reached, even though the Kashmir plebiscite cannot now be held until next summer, all the necessary preliminary arrangements could be started, affording a substantial basis for improved relations between the two dominions.

IV. INDIA'S ORIENTATION IN WORLD AFFAIRS

A. India's Alignment in the East-West Struggle

The Government of India does not now follow its publicly stated policy of neutrality in the East-West struggle and will in the future be even less able or inclined to do so. Indian officials, including Mrs. Pandit, Prime Minister Nehru's sister, have privately, but with every appearance of sincerity, assured American officials that India's real sympathies are with the Western democracies and that the US can count on India's support in the UN on all matters not directly affecting Indian interests. India naturally wishes to preserve its independence of action regarding matters directly related to its own interests, but as these coincide in the main with those of the US, India's freedom of action will rarely result in direct opposition to the US. The only matters that now appear capable of giving rise to differences of opinion between the US and India are those relating to the continued dependence of colonial areas and to racial discrimination.

A major factor conditioning India's Western orientation is its economic dependence upon the Western democracies. Despite Soviet efforts since the war to strengthen its commercial relations with India, the overwhelming bulk of Indian trade is still with the countries of the West. These countries are now -- and will be for the foreseeable

future -- the chief suppliers of Indian needs and the principal market for Indian exports. Moreover, it is only to the West that India can look for the capital, capital goods, and technical advice it so clearly needs and desires to revitalize its now hard-pressed economy. This fact is gradually becoming clearer to reflective Indians. Another economic factor linking India with the West is the country's sterling balances accumulated during the war.

Among non-economic factors conducive to a Western orientation, India's need for defensive alliances is probably the most important. The Government of India is fully conscious of the country's military and, above all, naval weakness and its consequent inability to defend itself against foreign aggression or to keep open the sea lanes upon which its commercial life depends. The need for a defensive alliance perhaps more than any other single factor is responsible for India's continuing adherence to the Commonwealth of Nations. India's Commonwealth ties themselves are, of course, another important factor linking India with the West and are obviously a violation of India's professed policy of neutrality between East and West.

India's long association with the British is another significant factor in determining the country's orientation. Indian hatred of the British, even in pre-independence days when it was at its height, was generally coupled with a

jealous admiration of British character, culture, and ability; the repeated emphasis by the British on the superiority of things British was not without its effect on the Indian consciousness. However much Indians resented British claims they nevertheless tended to accept them.

Immediately following World War II the USSR enjoyed considerable popularity both with the Indian Government and with the Indian public. But this popularity has gradually declined, particularly in government circles, and Indian admiration of Russian achievements has considerably subsided. Indians generally recognize that Soviet methods cannot be applied to Indian problems and that the USSR is unable to give much material or technical assistance. They are increasingly disillusioned with Soviet ideals and policies and doubtful of Soviet intentions and good faith. Instrumental in bringing about this change of attitude toward the USSR have been the unhappy experiences of Mrs. Pandit during her stay in Moscow as Ambassador and the subversive activities of the Indian Communist Party.

The Government of India has taken vigorous repressive measures against the Communist Party in India and is fully aware that the party has close connections with Moscow through the Soviet Ambassador. But for diplomatic reasons the government adopts the attitude that its vigorous anti-Communist measures are a purely domestic matter that does

not affect Indian-Soviet relations, and leaves it to Moscow to object if it cares to avow responsibility for Communist Party tactics in India.

Broadly speaking, the Government of India has three ends in view in professing a policy of neutrality between East and West, while actually following a policy basically favorable to the West. First, the government is profoundly aware of the country's limited capacity for self-defense and desires to avoid antagonizing unnecessarily a powerful neighbor. Second, the avowed policy of neutrality is designed to bolster India's prestige internationally by attracting the support of minor states in the Near East and Africa, and in South and Southeastern Asia. Third, the professions of neutrality are designed to appeal to a widespread Indian sentiment and thereby strengthen its popular support.

So far as India's avowed policy of neutrality expresses a desire not to become involved in any armed conflict between the Soviet bloc and the Western democracies, it is sincere; there is no doubt that India wishes to stay out of any war that may develop. But in view of India's limited capacity for self-defense, its economic dependence upon the West, and its other ties with the democratic nations, it appears extremely doubtful that India would not have to align itself with the West in the event of an armed conflict between the latter and the USSR. Indian alignment with the USSR in an

East-West conflict is virtually inconceivable.

B. India's Aspiration to Asiatic Leadership and the "Third Bloc" Concept

The major objective of India's foreign policy is to obtain recognition of India's leadership among the countries of South and Southeast Asia. To promote this objective India is unremitting in its advocacy of racial equality and in its opposition to European imperialist control of these nations. It was primarily to further India's aspirations to Asian leadership that Nehru convened the Inter-Asian Relations Conference in 1948 and the Conference on Indonesia in 1949.

Closely related to India's ambition to assume the leadership of Asia and to India's professed policy of neutrality is Nehru's concept of a "third bloc." This concept envisages a regional bloc of Asian nations, under Indian leadership, that would be independent of the two major power blocs and make Asian influence as such felt in world affairs. Nehru may sincerely believe that such an Asian bloc operating within and possibly also outside the UN would be a balancing influence for world peace. But the concept primarily expresses India's conviction of her "manifest destiny" as the leader of Asia. It attempts to win the support of those Asiatic nations that have no direct interest in the East-West contest and may be tempted by the third bloc scheme to accept Indian leadership. An Asian bloc with India at its head obviously

would vastly strengthen India's position as a world power and provide a basis for greater independence in world affairs. But India's prospects of success in forming such a bloc, or otherwise gaining the Asian leadership it so much desires, are slight. Pakistan may be counted on to contest strenuously any Indian efforts to obtain such leadership in the Near East. Moreover, the Near Eastern states for their part have no intention of putting themselves under India's -- or, for that matter, Pakistan's -- wing. Ceylon and Nepal have been kept out of the UN by Soviet vetoes. But even if these countries were members of the UN India could not count upon their support because both of them fear that Indian ambitions threaten their national integrity. The only support India could expect to muster would be qualified backing from Burma, the Philippines, the emergent United States of Indonesia, and possibly Afghanistan if the latter's relations with Pakistan deteriorate sufficiently to make Afghanistan desire India as an ally.

In view of India's present and possibly increasing Western orientation and the limited appeal of the "third bloc" concept to Asian nations, the emergence of such a bloc appears unlikely. However, the formation of some sort of regional association of India with some or all of the other nations of South and Southeast Asia is nevertheless quite possible. Such an association in certain circumstances might well

be consonant with the objectives of American foreign policy in Asia, and might even assist in realizing these objectives.

C. Significance of India's Continued Membership in the Commonwealth

The decision to remain in the Commonwealth is one of the most striking indications of the shift in Indian sentiment and orientation since the end of the war. At the root of the decision lie India's limited capacity for self-defense and her economic dependence, coupled with her recognition of the infeasibility of an alliance with the USSR and the impossibility of creating an effective "third bloc."

By remaining in the Commonwealth, India continues to enjoy the service and protection of the British Navy and Merchant Marine without which India's vital seaborne trade would be precarious, and the commercial and other economic advantages of association with the Commonwealth nations. In addition to these fundamental benefits, India's membership makes certain that Pakistan enjoys no military or economic advantage over India such as it might derive had India withdrawn. Commonwealth membership also safeguards India's stake in her sterling balances which accumulated in London during the war. Further, membership in the Commonwealth gives India a point of leverage since it enables her to gain concessions from the UK by threatening to withdraw from the Commonwealth. India is well aware that the British

wish to keep India in the Commonwealth and hopes to exploit this fact to her own advantage.

India's continued membership in the Commonwealth means that the traditional stabilizing combination of Britain's Navy, Merchant Marine, capital resources, and administrative skill with India's manpower, natural resources, and strategic position in South Asia is being maintained at least partially and in a tentative way. But at the same time each country is seeking to turn the cooperation of the other to its own advantage.

D. India's Attitude Toward Communist China

India's position with respect to the Chinese Communist regime has so far closely paralleled that of the UK and US. India is alarmed at the extension of Communism represented by the victories of the Chinese Communists, but the official attitude of the Government of India toward Mao's regime has to date been cautious. Nehru in his Independence Day speech (August 15, 1949) alluded to recent developments in China in extremely vague and general terms; he did little more than affirm the right of the Chinese to adopt such form of government as they choose and India's intention of not interfering with China's internal affairs. No other statement -- even semi-official -- of the government's attitude toward China has been made and there is reason to believe that no further or more definitive statement will soon be forthcoming.

Mao's assertion on July 3, 1949 to the effect that there is no middle road between "Western imperialism" and Russian Socialism is reported to have weakened the Indian hope that the Chinese Communists would not become the instruments of Soviet foreign policy. Despite growing Indian concern over the situation in China, the Government of India is unlikely to take soon any positive steps showing sympathy with anti-Communist elements in China.

China, of course, is India's most serious rival for Asiatic leadership and for the political and economic dominance which India hopes eventually to gain over Southeast Asia. Present chaotic conditions in China would be favorable to Indian ambitions in Southeast Asia but for the fact that India's local problems have kept it too thoroughly occupied to profit from China's predicament.

India would object vigorously if the Chinese, especially Communist Chinese, were to attempt to interfere in the countries of Southeast Asia. But New Delhi apparently does not believe that such interference is likely soon and will probably prefer to let the US raise the initial objection. The Government of India will likewise make strenuous efforts to thwart Communist inroads of any kind in Tibet.

The Chiang-Quirino proposal for a Pacific Pact was coldly received by the Government of India which naturally opposes any scheme giving scope to Chinese leadership in

Asia, particularly when headed by the discredited Chiang. India will itself expect to be the leader in any anti-Communist alliance of Asiatic nations that may ultimately be formed. But it is doubtful if it would espouse any scheme that did not have at least some measure of support from the UK and the US. Nor would any scheme be acceptable to India that did not enlist the aid of nationalist elements in the several countries of the area by liquidating French and Dutch imperialist control.

V. ESTIMATED EFFECT OF POSSIBLE ACTION BY THE U.S.

India is now oriented, politically and economically, toward the US and the other Western democracies. This orientation toward the West is most likely to continue under the leaders of the present Indian government. They are intelligent, educated, competent, and have a keen sense of public responsibility. But they are beset by pressing economic and political problems. Should a solution of these problems be too long delayed, it is possible that the Indian masses will not continue supporting their present leaders beyond the next five years. Economic and political assistance from foreign sources would strengthen the hands of India's leaders and make more probable their continuance in the government.

A. Economic Assistance

In the past British investments tended to supply the necessary fillip that started India into each of its more prosperous periods of development. It is accepted as a truism that it was only after the British had proved the practicability of various economic enterprises that Indian entrepreneurs were willing to venture their capital. Today little British capital is available for investment in India, while other foreign capitalists, without assurances regarding the security of investments, are hesitant to enter the Indian field. Foreign capital's failure to show confidence in

India's capacity for industrialization strengthens the uncertainty prevailing in Indian financial circles, thus constricting the flow of indigenous capital required for an upswing in industrial output.

The Indian Government realizes this situation and, carrying forward policies adopted by the British in India, is advocating increased government participation in economic enterprises. But other demands -- food imports, for example -- have forced it to divert funds it would otherwise have available for developmental projects and expansion of production.

The greatest advantages would accrue to India if foreign economic assistance were directed toward projects likely to produce quick improvement in the standard of living. Three of these are: increasing the supply of food, developing power resources, and improving transportation facilities.

India's pressing food problem may be relieved by either or both of two methods: (1) making available surplus foodgrains at a low price or as a gift, and (2) providing loans for improving and increasing foodgrain storage facilities. The first would enable India to reduce its imports and thereby decrease the balance of payments deficit; it would also decrease the deficit in the general budget, thereby permitting larger sums to be spent on nation-building projects. The second, besides immediately conserving and improving the distribution of grain, would strengthen India's position

in meeting its long-term food supply problem.

Loans for judiciously selected, multi-purpose river development projects hold the prospect of increasing the acreage of agricultural land and of increasing power resources in areas capable of industrial development. The supply of replacements in rolling stock and of new railroad equipment would ease internal transportation bottlenecks. Loans for construction of power plants and railroads will be self-liquidating; the British have always invested their money in such productive enterprises and were well repaid.

India will gain the greatest benefits from any financial assistance offered if agreed upon funds are spent for specific projects; some supervision will be needed to insure that the money is spent according to loan specifications.

B. Political Assistance

The present rivalry between India and Pakistan is sapping energies that could be directed toward solving basic economic problems. How soon these two nations can be brought to cooperate in economic affairs of mutual interest depends on how quickly disputed matters can be arbitrated. In past disputes between the Congress Party and the Muslim League Great Britain served as arbitrator, and its decisions were ultimately accepted. Any encouragement to arbitrate present disputes between India and Pakistan may pave the way

for solving more basic problems.

Cooperation between India and the US will be most successfully advanced if India is allowed adequate scope for realizing its legitimate aspirations for leadership and influence in world affairs. This would involve supporting Indian candidacy for office in the UN, its committees, and subsidiary organizations. India's desire for leadership in South and Southeast Asia in particular offers an opportunity for employing a basic feature of Indian foreign policy as a means of achieving American objectives in the area. Given adequate assurances by interested powers, India might take upon itself the leading role in promoting an anti-Communist association of South and Southeast Asian nations. Such an association initiated and headed by India would not be open to the charge of American imperialism or expansionism as would an organization directly sponsored and lead by the US.

British efforts to integrate more closely the South Asian dominions in the framework of the Commonwealth will strengthen India's Westward orientation and further Britain's program for regional security. Therefore any American action that tended to weaken India's ties to the Commonwealth would conflict with a basic objective of American policy.